A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1956 October

Contents

THE Trend OF BUSINESS

As the year moves into its final quarter, it is possible to determine with greater certainty the manner in which the economic picture is shaping up for 1956. It is now clear that the current year will set a new record for over-all activity—not all lines of activity, but for virtually all aggregate measures. The value of the nation's output of goods and services was running 5 per cent ahead of last year in the second quarter, and it now appears that results for the year as a whole will approximate that gain. Employment, total factory output, retail trade, business capital expenditures and total construction are all heading for new highs.

But advances in dollar measures of activity are being influenced more and more by higher prices. Between 1954 and 1955 the nation's output of goods and services rose 7 per cent in real terms. In 1956, after adjustment for price changes, the increase may be about 2 per cent.

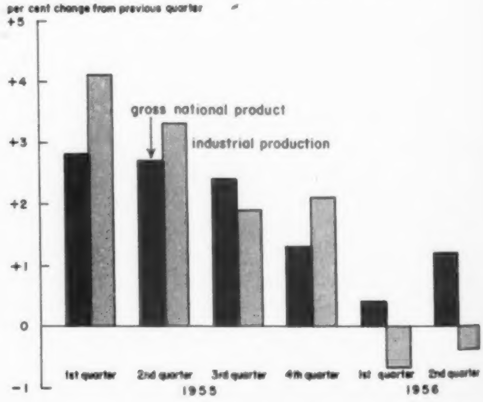
Within the totals, certain lines have witnessed sharp declines. Cutbacks in motor vehicles and farm equipment have been widely publicized. Home building continues to lag far behind last year. Farm income seems to be stabilizing and is likely to improve over 1955, but it remains well below earlier years.

These soft spots were foreseen at the beginning of the year. Partly for this reason, slide-offs did not send sympathetic reverberations through other sectors of activity. More important, the steel, nonferrous metals, glass and cement released by producers of autos, farm machinery and homes were needed badly in the booming lines—business equipment and nonresidential construction. Some materials, such as lumber and wallboard, and the labor resource were not shifted so completely to other uses. Because of limited mobility of labor in the short run and curtailed employment in centers concentrating in depressed lines, there has been substantial unemployment in a few centers along with tight labor markets elsewhere. Nonetheless, 1956 is providing a solid example of the "rolling readjustment" concept which entered the jargon of business forecasting a few years ago.

Upward price pressures

The over-all pressures of demand upon available resources have been so strong as to induce an upswing in prices. In July, consumer prices were 2 per cent above the same month in 1955 and wholesale prices were 3 per cent higher. These indexes had exhibited a remarkable degree of stability between mid-1952 and mid-1955.

Value of gross output continues to rise; industrial production slips below record four-quarter rate



Perhaps a more adequate measure of changes in the "general price level" is available in the implicit deflators calculated for the gross national product accounts. By this reckoning, some price inflation has been present throughout the postwar period, even in the so-called "recession" years of 1949 and 1954. In 1955, the deflators averaged 3 per cent higher than in 1952, for a gain of about 1 per cent per year. Between 1955 and 1956, preliminary evidence suggests a doubling of this rate of increase.

During recent months virtually all commodity and service categories have participated in the price uptrend. Farm prices, in which declines had tended to offset increases in industrial goods in the wholesale price index from mid-1952 through 1955, turned upward in 1956. However, at the moment, price news is being made by the increases posted by producers plagued by rising costs of labor and materials.

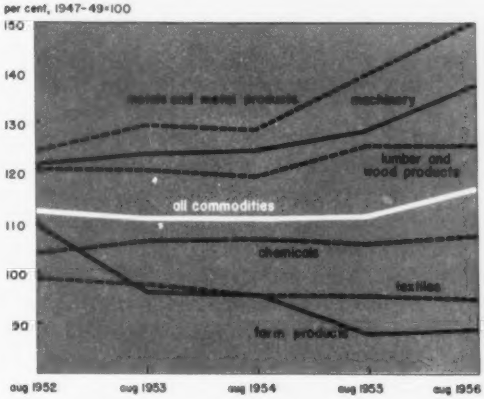
Deficit spending — non-Federal

Current inflationary pressures cannot be traced to the fiscal policy of the Government. Federal expenditures have been relatively stable for the past two years, and a substantial cash surplus was achieved in fiscal 1956. Rather, it is non-Federal buying, financed in part by "deficit spending" on the part of business, consumers and local governments, which has pushed aggregate demand beyond the limits of physical capacity. In 1955, net non-Federal debt outstanding rose by 50 billion dollars or 13 per cent. Only once before, in 1950, was there a rise comparable in magnitude, and that was triggered by Korea.

The willingness of borrowers to incur obligations at such a rate and the ability and willingness of lenders to make the funds available were responsible for promoting the boom of 1955-56. The potential for such a movement had been present throughout the postwar period. Why did it occur in 1955?

It is apparent that the cumulative experience of the postwar years has served to strengthen confidence in "continuous prosperity." In 1946, 1949, 1954 and again in 1956 the economy

Metals and machinery lead new price upsurge



demonstrated a resistance to depressing influences, and this has steadily assuaged lingering fears of a serious downturn.

Optimism aplenty

The "new era" philosophy has been slowly catching on and displacing conservative attitudes engendered by decades past. The experience of recent years has been that the bolder spirits have reaped the greatest benefits in the form of profits or the acquisition of capital assets at price levels lower than those now prevailing. Increasingly, decision makers in business firms, financial institutions, state and local governments and households have shown a willingness to "stick their necks out" rather than be left behind on the road ahead.

There is evidence of a pronounced trend toward long-range planning for future expansion by business firms. Moreover, there is growing willingness to rely on debt to finance business expansion and to provide desired public improvements. Individuals are more willing to obligate future earning potential as they incur mortgage and instalment debt. On the other side of the ledger, lenders have gradually liberalized their views as to the safe proportion of risk assets in their portfolios.

The willingness to incur debt and to stretch out the period of repayment is intimately tied to the more-or-less continuous decline in liquidity of the private economy which has been under way since the end of World War II. During the conflict only half of the Government's outlays were matched by taxes. The resulting Government debt, whether purchased by consumers, businesses, banks or other financial intermediaries, enormously swelled the money or near-money position of the private sector of the economy. At the same time consumer, business, and state and local government debt was being paid down and wartime restrictions were creating a backlog of demand for investment goods and consumer durables.

From 1945 to date, business has spent about 250 billion dollars on new plant and equipment. More than 11 million new homes have been built. Consumers have purchased about 50 million new cars and a multitude of other durables. State and local governments have been clearing off their shelves of public works while raising their sights on the quality and quantity of community facilities appropriate to the "new era." In acquiring these physical assets, strong liquidity positions in all sectors of the private economy have been pared, either absolutely or relative to assets or obligations.

Luckily, not all holders of cash and securities decided to run off their reserves at the same time early in the postwar period. If they had, the inflation problem would have been greatly magnified. Indeed, the belief in some quarters that what had gone up would come down, sooner or later, probably was one of the most potent stabilizers in the early postwar period.

Financial institutions have witnessed a substantial deterioration in their liquidity ratios as they moved to meet private credit demand during the past decade. Holdings of Governments have been reduced virtually every year.

Life insurance companies had 46 per cent of their assets invested in Governments in 1945. This proportion has dropped each year since then and reached 9.5 per cent at the end of last year. The expanded practice of "warehousing" mortgages with the commercial banks provides additional evidence of the liquidity pressures on insurance companies.

The story is much the same for savings and loan associations. The ratio of cash and Governments to assets fell from one-third at the end of 1945 to less than 12 per cent ten years later. Moreover, during 1955 alone advances outstanding from the Home Loan banks increased by over 50 per cent.

Commercial banks liquidated 7.4 billion dollars of Governments last year in order to provide for loan expansion, and many individual banks have denuded themselves of short-term Treasuries. The ratio of loans to deposits at member banks stood at 47 per cent on June 30 compared with 31 per cent in mid-1950, and 18 per cent at the end of the war.

Competition for a limited supply of funds between general categories of use and between individual borrowers has seldom been so intense as during the current year. It is apparent that this situation creates a new basis for uneasiness on the part of decision makers. Physical needs are not as pressing as they were a few years ago, and there is a new obstacle to getting things done—the availability of funds. While it is too early to judge the seriousness of this threat to the psychology of the future, the 1956 credit experience is certain to have an impact on business and consumer plans.

Now that commercial banks and other financial institutions have pushed their resources near the limit, the spotlight is focused on the nation's savers, investors and its monetary system more sharply than ever before. Attention is increasingly directed toward the lender of last resort—the Federal Reserve System. Although the trend and pitch of feeling in the money and capital markets today may seem at odds with the recent moderate growth in the over-all pace of economic activity, the sectors most dependent upon the capital markets are those operating at near capacity and in which generative price pressures are strongest. Obviously, the pressure on liquidity is causing some borrowers to postpone or reduce planned expenditures. This must be the case if price inflation is to be minimized.

Credit for seasonal businesses

Commercial bank loan officers are again renewing acquaintance with customers who regularly apply in the late summer and autumn for credit needed to carry them over their peak period of activity. Preëminent among these "seasonal" borrowers are food and farm product processors, commodity dealers, textile manufacturers and wholesale and retail trade establishments. Their borrowing requests represent mainly funds needed to move agricultural products through processing and marketing channels plus the financing of the fall build-up in stocks to meet the fall and Christmas demand.

Although price changes and the general level of business activity naturally have some influence on the amount of credit needed by these businesses, the basic pattern of their demand for funds, in contrast to that of most other industries, remains much the same through prosperity or recession — a net increase in borrowing in the second half of every calendar year. Most of these borrowers repay their loans after the turn of the year as their inventories are liquidated.

This year, however, the seasonal borrowers are approaching their banks at a time when the latter are in the tightest liquidity position in many years. Most banks are short of lendable funds relative to total credit demands for expansion by all types of business. They have already liquidated most of their cushion of short-term assets to meet the unprecedented loan upsurge which has continued almost unabated since mid-1954. They are becoming more reluctant to undertake further sales of securities which entail substantial losses under today's market conditions; and many are reaching the maximum "risk-asset" levels in their investment portfolios which they consider prudent.

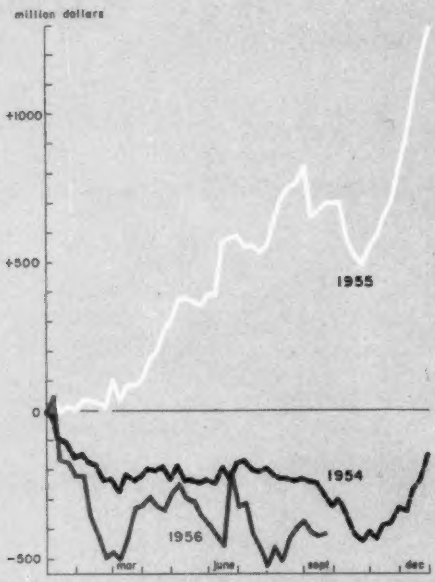
The job facing the banks

How will the banks get over the fall hump in credit demands? In the past, the Federal Reserve has always provided the banks with the reserves necessary to support what it considered a reasonable volume of credit to accommodate seasonal requirements. The volume of reserves supplied for this purpose by the System has varied, depending on the amount of funds flowing in from other sources and being absorbed by the currency drain. In the fall of 1955, when banks were fast becoming loaned up, their reserves were bolstered by roughly a half-billion dollars on balance as a result of Federal Reserve action.

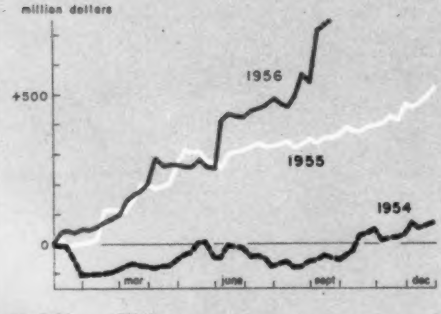
The capacity of the banks to meet seasonal credit needs is, of course, strongly affected by the amount of accommodation granted to other businesses. The standard measure of business loans is the commercial and industrial loans outstanding of the nation's weekly reporting

Seasonal borrowers push up business loan totals as fall progresses

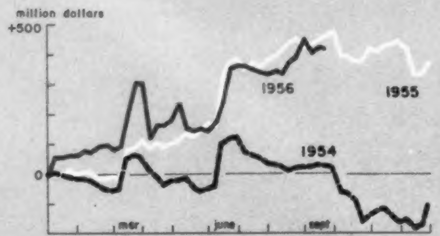
Sales finance companies



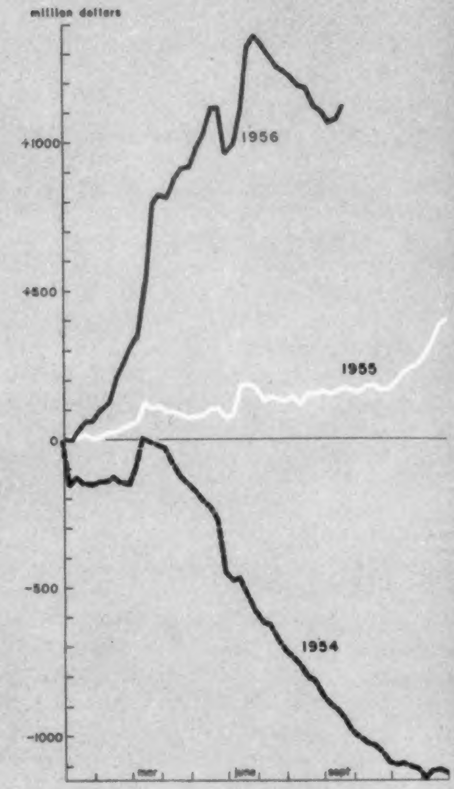
Oil, coal, chemicals and rubber



Public utilities



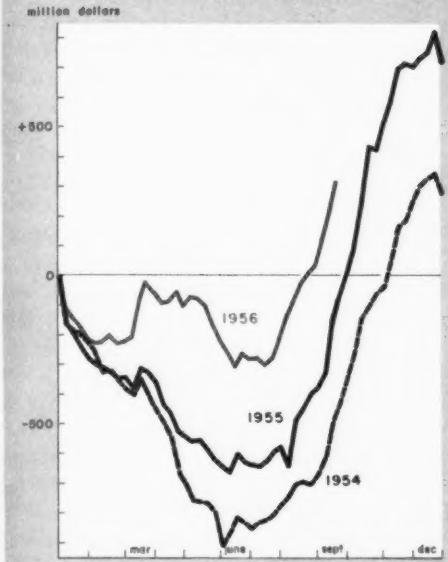
Metals and metal products



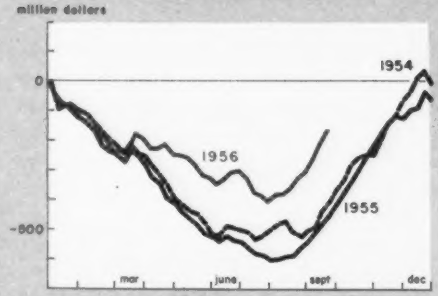
banks. This total now stands at 29 billion dollars, a whopping 6 billion above the mid-1955 level. Of this rise approximately 3.5 billion occurred in the second half of last year. Focusing on these totals, however, gives a far from accurate impression of seasonal requirements. Borrowing by other businesses is primarily influenced by factors other than seasonal needs, and frequently the borrowing decisions by some individual lines can involve very large changes in the total bank credit picture.

Metals and metal products firms, after heavy liquidation of bank indebtedness in 1954 and a moderate amount of net borrowing in

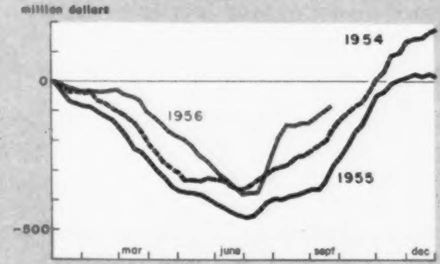
Total seasonal businesses



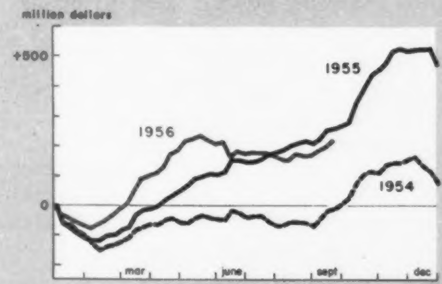
Food, liquor and tobacco



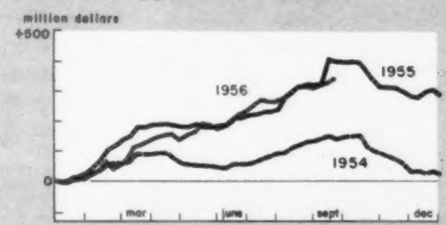
Commodity dealers



Wholesale and retail trade



Textiles, apparel and leather



1955, accounted for most of the total growth in business loans in the first half of this year. Much of this year's rise can be attributed to inventory build-ups preceding the steel strike. With the drawing down of these inventories to more normal levels, these loans are now falling and it seems reasonable to expect that they will remain below midyear levels.

Sales finance companies, reflecting the heavy sales of automobiles and other consumer durables, were the heaviest users of bank credit in 1955. This year they have reduced bank indebtedness as sales of these products sagged. There is little likelihood that finance companies will borrow substantially more until late in the year when their needs will be increased by the introduction of the new car models and the usual Christmas upsurge in appliance sales.

Public utilities, fuels, chemicals and rubber firms have expanded their borrowings fairly steadily with the rising level of economic activity. They have been important users of bank

credit this year and are foremost among the businesses which have undertaken ambitious capital expenditure programs. Although their principal need is for long-term money, they have backed away from the stiff terms of the capital markets, relying temporarily on bank loans. Many plants and pipelines are still in their initial stages of construction and, unless the market for long-term funds becomes easier, they are likely to continue to depend heavily on bank credit.

In summary, the borrowing demands of such industries are markedly responsive to cyclical swings and oftentimes reflect special situations such as an anticipated strike or unfavorable market conditions for raising long-term capital. Obviously, these influences have little regularity and vary at any one time among industry groups.

In contrast to the industry groups discussed above, the seasonal businesses, those whose operations are heavily concentrated at a particular time of the year, show a regular and much more predictable borrowing pattern. Although a small amount of their credit rise, especially for textiles and trade, reflects growth, the bulk of the borrowing by these firms is for purely seasonal needs. It is only this portion of the second-half loan growth, therefore, which represents the seasonally generated demand for credit.

The contrast in the contribution of the seasonal and nonseasonal borrowers to the second-half loan expansion of the large banks which report loans classified by industry is illustrated below:

July-December	Nonseasonal	Seasonal	Total
	(million dollars)		
1952	+ 977	+1,517	+2,494
1953	− 206	+ 816	+ 610
1954	− 501	+1,131	+ 630
1955	+1,703	+1,347	+3,050

In most past years the fluctuations in the amount of credit used by the seasonal industries have overshadowed net changes in borrowing by other businesses so that total busines loans have displayed a seasonal pattern — falling in the first half and rising in the last. In the spring of both 1955 and 1956, however, the borrowing by sales finance companies and metals firms, respectively, more than offset the net paydowns by the seasonal industries with the result that the totals appeared to move "contra-seasonally." Likewise, the nonseasonal borrowers accounted for more than half of the second-half bulge in total business loans last year.

The seasonal take so far

Right now the influx to the banks of businesses seeking seasonal accommodation is in full swing. The experience of recent years with seasonal borrowers alone would indicate that the large banks can expect a net demand for credit for these businesses of roughly 1 to 1.5 billion dollars during the current half year. It is still too early to judge if competition of other business borrowers will in any way hamper the efforts of seasonal borrowers to secure needed financing through the balance of the year.

From June 27 through September 5, loans to all businesses were running somewhat lower than last year — a net expansion of 580 million compared with 700 million in the same period of 1955. Within this total, however, loans to the seasonal borrowers were about a third higher than last year. Part of the latter increase reflects the special needs for funds by commodity dealers in connection with the recently accelerated shipment of surplus cotton abroad, but it clearly indicates that these dealers were able to obtain the credit necessary to handle this movement of goods.

Furthermore, there is some evidence that the total amount of credit currently granted may be somewhat understated because new loan extensions to seasonal businesses have been partly offset by continued repayments on last year's loans, which were liquidated more slowly than usual last spring.

All indications considered, seasonal borrowers seem to be receiving much the usual reception from their bankers as their fall needs for funds crystallize. But, like all borrowers, they are finding it necessary to pay more for their money.

Consumer credit: debt rise continues

So far in 1956, consumers have continued to supplement current income by adding to their short- and intermediate-term debt. The growth, however, has been at a rate much below that of a year ago. While the total had climbed by the end of July to an unprecedented high, 37.1 billion dollars, the advance during the seven months preceding had been only 4½ per cent, much less than the 11 per cent gain in the same months of 1955.

Nearly four-fifths of the total is indebtedness scheduled for repayment in regular instalments. The remainder represents balances due on single-payment loans and a backwash of the "informal" borrowing consumers engage in when they use charge accounts or allow time to elapse before meeting bills for services, such as those of professional men and of utility companies.

Auto debt, the lion's share

More than half of all instalment indebtedness outstanding represents funds borrowed to help pay for automobiles. Contrasting moods of the automobile market, therefore, are bound to leave distinct impressions upon the debt position of consumers.

It was a whopping 42 per cent rise in the level of monthly borrowings to finance vehicle purchases that gave most of the lift to new credit extensions during 1955. Even at the reduced level of vehicle sales in recent months, new borrowings for automobile financing have continued to exceed the volume of repayments on old automobile loans.

The relationship between the pace of *current* automobile sales and the dimensions of the overhanging debt is not, however, a direct and simple one. The sum total of credit outstanding will only expand (or contract) if the rate at which new credit is granted exceeds (or falls short of) the rate at which old debts are paid off.

While current grantings of new credit are quite volatile, the monthly repayment volume is inclined to change sluggishly. The reason for this is that new credits granted depend more than anything else upon the level of peoples' borrowings to finance today's purchases, while the volume of repayments depends upon the size and terms of their whole past accumulation of debt.

Even so, the flow of monthly repayments does not stand in a fixed, unvarying relationship to the total. The fraction of the backlog of outstanding automobile debt that car buyers paid off each month during the first half of this year, for instance, averaged 8.6 per cent, or more than a full percentage point less than the repayment ratio a year before. In another way of putting it: just less than a year would be required to retire all outstanding automobile debt at the rate of repayment sustained in this year's first half, but only a little over 10 months would do the job at the rate of retirement a year earlier.

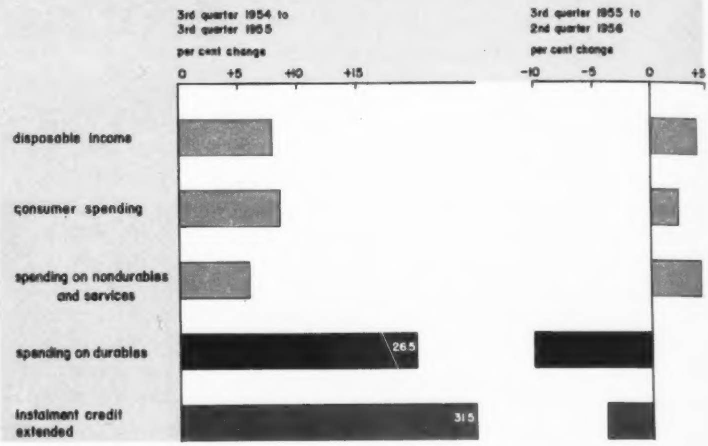
1955: easy terms for car buyers

This slip in the repayments-to-outstandings ratio reflects two aspects of the relaxation in automobile credit terms that began about two years ago and gradually spread through the market in the succeeding six months or thereabouts. One is the "stretch-out" in instalment loan maturities, and the other is the climb in the average size of loan.

The willingness of lenders to buy or discount automobile instalment paper maturing in 30 or 36 months or even beyond or to make direct loans on such terms, where 18 and 24 months

had been typical earlier, meant a slowdown in the rate of debt repayment—the rate at which lenders were "turning over" their credit outstandings. At the same time, the practice by car dealers of "price packing" and "overallowance" on trade-ins, which had the effect of reducing, sometimes to zero, the "effective" down payments required of car buyers, spelled a rise in average loan size and thus a climb in new credit extensions out of proportion to the 1955 uptrend in sales. Furthermore, growth in average loan size, partly a reflection of higher automobile prices, has been a factor serving to keep new credit extensions from falling as greatly as car sales this year.

Instalment credit: last year's upsurge and this year's decline reflect changes in durables spending



Together, these factors—the slowdown in the repayment rate and the upward tilt to extensions—have pulled the repayment ratio down to its present level. If the easing in terms has by now come to a halt, and there are reasons to suppose that it has, the repayments ratio should begin to stabilize, with the monthly paydown reflecting primarily the amount of outstanding debt. Thereafter, changes in credit outstandings would reflect primarily changes in the volume of new loans made.

Financing the new models

Record levels of employment and income and the confidence that restyled models will meet with enthusiastic customer acceptance inspire a widespread belief in the trade that the automobile industry is on the threshold of an improvement in sales. With credit involved in two-thirds to three-fourths of all new car sales, it is clear that if the 1957 models sell better than their immediate predecessors there will be vigorous growth in the months ahead in the demand for automobile sales credit.

Growth in the demand for credit, however, does not automatically increase the supply by a corresponding amount. Credit demand from other sectors has increased and promises to remain strong. Sales finance companies—important suppliers of credit to automobile buyers—must compete with other users of credit for the funds they borrow and, in turn, lend to car buyers. Recent weeks have seen several finance companies postpone plans for borrowing at long-term, one way they commonly raise funds. The reason was that interest rates, reflecting the strong over-all demand for funds and monetary action designed to prevent a dangerously rapid expansion of the nation's credit structure, had advanced beyond expectations.

One alternative to long-term financing is borrowing at short-term, either from the banks or by the issuance of commercial paper. But bank rates and commercial paper rates have risen too, in step with the advance in other interest rates. Borrowing, then, both long and short, has become more expensive.

Owing to the inability of the economy to

accommodate a further rapid expansion in bank credit without additional upward pressure on prices and costs, it seems likely that the long-term funds market—via sales finance company borrowings—will bear the brunt of any appreciable expansion in the volume of automobile credit during the months immediately ahead, unless the banks effect some substantial shift of credit into the automobile financing area at the expense of others. To the extent, then, that added funds are tempted from the market for long-term funds, the allocative mechanism at work in that market will be called upon to determine the fraction of the nation's savings stream which shall be harnessed to the support of the automobile market.

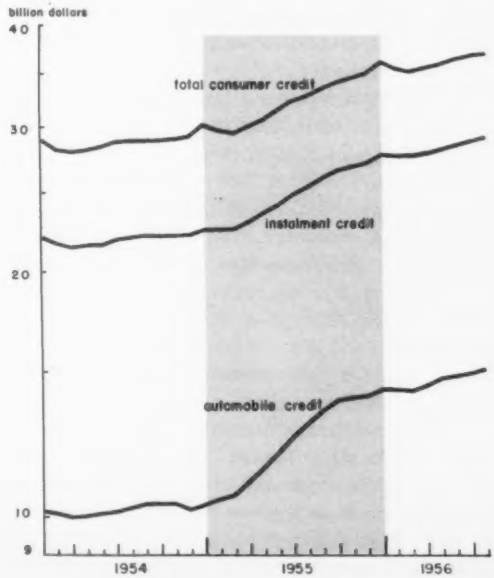
The upshot in any case would appear to be that car buyers soon will be paying more for credit than they have paid for some time. This may not be clearly or immediately apparent to them, since financing costs typically are not quoted separately. Thus it appears unlikely that a rise in carrying charges would put much of a damper on the demand for the new model cars. For one thing, interest is only part of the finance charge, and the finance charge as a whole appears to be a not-too-important consideration to the typical automobile buyer. Far more crucial are such factors as the amount of the monthly instalment and the size of the down payment required by the lender.

Two years ago, when the motor industry stood on the threshold of the largest production and sales season in its history, the banks, sales finance companies and other lenders in the field were all eager to increase their holdings of automobile instalment paper. Today, however, the situation is markedly different. The banking system, in particular, and other lenders to the extent they are retailers of bank credit are hard pressed to meet present demands upon them. This pressure can be expected to continue unless the over-all demand for credit eases up.

Repayment of outstanding instalment debt is, of course, one source of the funds available for re-investment by lenders in the form of new credit extensions. During the rest of 1956 and early in 1957, at least, monthly automobile debt repayment volume of 1.3 to 1.4 billion dollars appears to be in prospect. Current repayment, therefore, will cover new credit extensions of this amount, without any diversion of credit from other sectors. Should it become necessary to pump more credit than this into the auto market—and it would appear likely that it will if sales volume is to be stepped up appreciably—repayments on other forms of credit, or savings now flowing into other sectors of the funds market, would need to be tapped.

Realization of the industry's sales and production goals for the 1957 model season may yet come to depend upon the willingness of buyers to utilize their cash more freely than they have had to do for some time. More all-cash deals and bigger down payments and shorter maturities on loan contracts—altogether spelling reduced dependence upon instalment credit—may be in the cards if the optimism of the trade is to be justified.

Credit growth slows in wake of a banner auto year



Retail sales— barometer of consumer demand

Changes in retail sales beyond the normal seasonal fluctuations are watched closely by most business observers. This attention is merited by the fact that retail trade is the final phase of the nation's biggest business — supplying U.S. consumers with food, clothing, automobiles, household supplies, furniture, appliances and sundries of all kinds. The tab for all of this now runs close to 200 billion dollars a year. Hence, a change of as little as half a per cent involves nearly 1 billion dollars.

Sales of retail outlets represent about 70 per cent of the total goods and services consumed in the nation. The broader movements in retail sales, of course, are similar to those in disposable personal income. Since sales data are available on a more current basis than data on consumer expenditures, they are generally used as an indicator of consumer spending. In the short run, however, deviations occur as consumers adjust their spending-saving pattern or their use of consumer credit.

Retailing comprises a large number of units — some 1.7 million establishments according to the official Census count in 1954 — and engages more than 7 million full- and part-time employees. The effects of shifts in the volume of retail trade, moreover, reach far beyond those individuals and businesses directly involved in retail selling. Fluctuations in retail sales are reflected back through a complicated maze of production and distributive processes and have their impact on inventories and future production and employment in manufacturing firms.

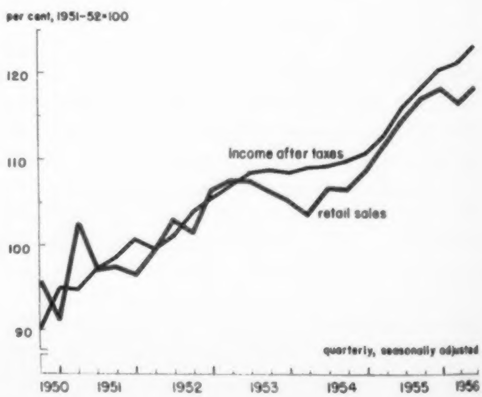
Like most comprehensive measures, aggregate retail sales figures typically show far greater stability from month to month than subtotals for areas or types of retail establishments. In fact, even the most stable segment of trade, food stores, is subject to larger changes than the total. Such divergencies in sales trends appear not only for individual product and firm lines but also have geographical and seasonal patterns. For this reason, generalizations about total retail buying made, for example, on the basis of information on particular products, regions or kinds of retail business often are misleading.

Status of retail sales series

Keeping track of the course of retail sales is no small chore. Collection and compilation of sales reports occur at all levels: national, state, city, and even neighborhood. But the information available on both sales levels and trends is generally most reliable for the nation as a whole.

A periodic enumeration by the Bureau of the Census provides basic information for all or nearly all retail establishments in 3,000 counties

Retail sales gain in first half lags rise in disposable personal income



and 4,000 cities. These censuses furnish figures on the number of retail establishments, the total sales and payrolls over the census year, the level of employment for a specified date and the number of proprietors. All of these data are classified so as to provide sales information for nine types of retail establishments. Even more detailed type-of-business figures are available for 168 metropolitan areas and the larger counties and cities.

To bridge the gaps in sales volume information between complete counts, the Census compiles monthly reports of sales by a sample of retail establishments. As currently conducted, the monthly retail sales survey includes both a fixed sample of the largest outlets plus a rotating panel of smaller outlets. A measure of the reliability of the month-to-month survey is provided by a comparison of such figures with the 1954 Census results. For the nation as a whole, the difference was less than 1 per cent. Deviations for particular kinds of business, however, were greater.

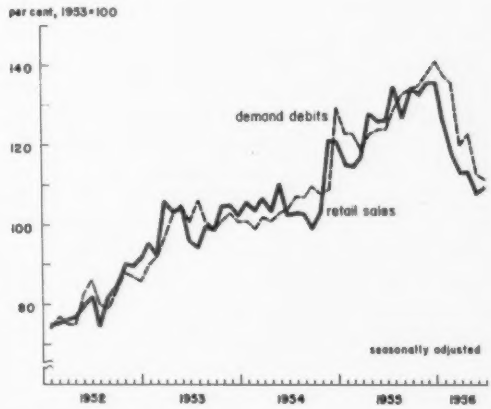
It should be noted that in both the current and the periodic programs carried on by the Census the unit is the retail *outlet*, not a *product* category. Inasmuch as segregation of sales by product or type of buyer is impractical, reported sales include a varying proportion of service sales and sales to other than ultimate consumers. The proportion of sales by retailers to businesses and governments has been estimated to be close to one-sixth of total sales volume.

Retail trade information supplied by the Census for regions or areas is typically much less detailed than for the nation. For the majority of both urban and rural communities, over-all retail sales patterns can be described with some degree of accuracy only at Census dates. On the other hand, percentage changes in sales volume of a sample of stores (owned by organizations operating fewer than 11 stores) are published for 31 metropolitan areas as part of the monthly retail trade survey by the Census. In the Midwest, these sampled areas include Chicago, Detroit, Milwaukee, and Des Moines.

Retail sales and bank debits
compared in selected Michigan areas

Detroit

Flint



Grand Rapids

Aside from Census figures, the most widely used information relating to retail trade is derived from the department store reporting program of the Board of Governors of the Federal Reserve System. By virtue of their large size and extensive variety of merchandise, department stores have long been assumed to be representative of a substantial portion of retail trade. As a rough indicator of trends in sales of general merchandise, apparel, and furniture and appliances, the indexes have proved useful. Too frequently, however, the uses have gone far beyond the natural limitations of the underlying information, both with respect to scope of coverage and accuracy.

The development of over-all sales information as a by-product of sales tax collections has progressed successfully in a number of states and, where available, sheds considerable light on local trade movements. In the Midwest, Michigan sales tax figures are excellently suited to sales analysis purposes. They cover all retail transactions; tax liability is established at the time the sales occur; and monthly reports by taxpayers are required. The Michigan Department of Revenue publishes monthly data by kind of retail outlet and by county. Such figures probably come as close to providing insight into local retail trade shifts as a "type of outlet" classification can provide.

In the absence of retail trade data for the majority of medium-sized cities, considerable attention has been given to other statistics that may serve the same purpose. Checks written on the accounts of individuals and businesses are one of the more promising readily available substitutes. In an accompanying chart, retail sales series for the three Michigan metropolitan areas, Detroit, Flint and Grand Rapids, derived from sales tax collections are plotted with similar figures on debits to demand deposit accounts. Major swings in these series appear to be roughly coincident. In the short run, changes in retail sales show a slight tendency to lead similar changes in demand debits. In the case of the Detroit area, the inclusion of a relatively higher proportion of debits arising from investment transactions primarily of financial institutions is responsible for some of the lack of correspondence in recent debits and sales indexes. Generally speaking, the correspondence is closest in the smaller centers where the influence of such transactions is less.

Midwest trade patterns

The recent Census of Retail Trade provides an up-to-date and detailed cross section of retail sales in 30 major metropolitan areas of the Seventh District.

The pattern of sales by type of establishment in these 30 areas is not very different from that in the national aggregates. As an accompanying chart shows, food stores and eating and drinking establishments accounted for the largest share of the retail dollar. The second largest share went to retailers of automotive products. Since the 1948 Census, the proportion of total retail sales made by automotive dealers and service stations has increased significantly in most Midwest areas as in the remainder of the country. The relative importance of general merchandise and apparel store sales, on the other hand, has declined percentagewise over this same period. Even so, their 19.5 per cent of total retail sales exceeded by 2½ percentage points the corresponding national figure.

On a per capita basis, retail sales based upon the 1954 Census showed considerable variation among the 30 District areas. From a high of $1,400 in Flint, per capita sales ranged downward to a low of $1,040 in Muskegon, both Michigan cities. In the nation as a whole, sales per person at retail establishments averaged $1,050 during 1954, but this figure includes sales in smaller cities and rural areas as well as metropolitan centers.

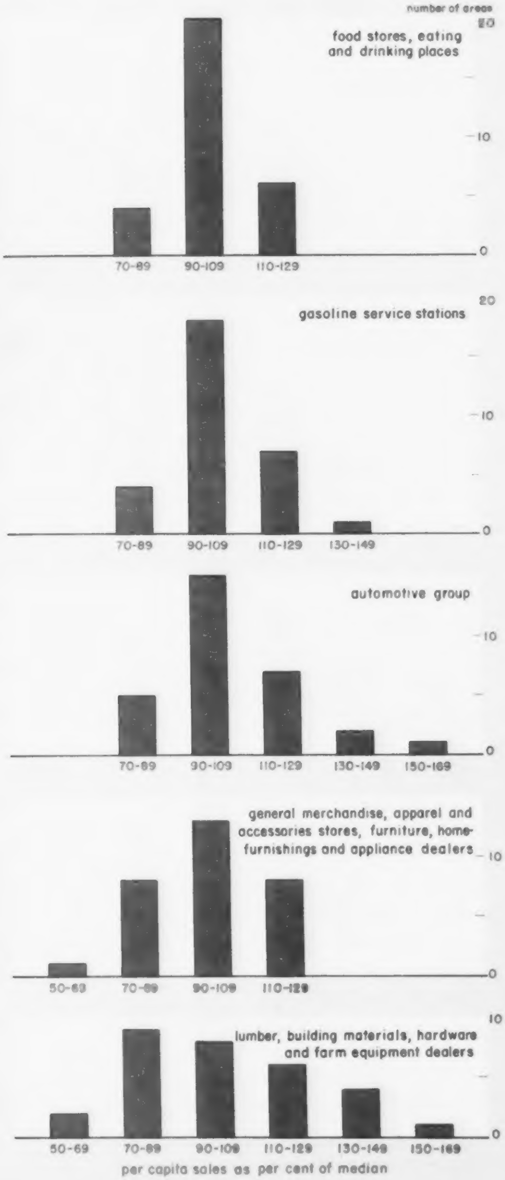
A further breakdown of area per capita sales by kind of retail establishment reveals a substantial amount of variation. In the chart, per capita sales by kind of business and area are shown as percentages of the average for the 30 areas; for example, per capita food store sales in each of the 30 areas are shown in relationship to the average (median). The charts show that food store sales (per capita) vary relatively little from area to area. Lumber and building

Distribution of retail sales by kind of business for 30 areas, 1954

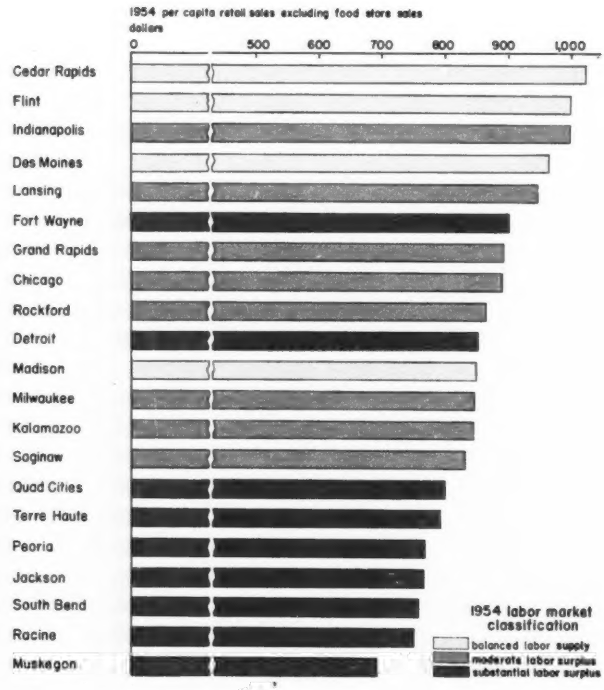
	per cent
Food	**31.4**
food stores	22.6
eating, drinking places	8.8
Automotive	**23.9**
automobiles, accessories stores	18.0
service stations	5.9
Clothing and homefurnishings	**24.6**
general merchandise stores	12.3
apparel, accessories stores	7.2
furniture, homefurnishings, appliance dealers	5.1
Lumber, building materials, hardware, farm equipment dealers	**6.3**
Other retail stores and non-store retailers	**13.8**
Total retail sales	**100.0**

In the bar charts at the right, the middle bars represent the number of metropolitan areas having about average per capita sales in the given kinds of businesses. The adjacent bars indicate the number of areas with more or less than average per capita sales.

Variations in per capita sales of 30 District areas for selected types of retail businesses, 1954



Sales per capita reflect local business conditions



materials dealers' sales, on the other hand, vary widely. Among the individual categories tested, general merchandise store sales per capita showed the greatest amount of variation, with the figure for the high area more than three times that of the lowest ranking area. When general merchandise figures are combined with per capita sales of apparel and furniture outlets, however, the spread is diminished considerably. This seems to be a consequence of the fact that general merchandise retailers, especially department stores, sell much the same type of merchandise as these other kinds of stores. While the consumption of certain commodities may vary little between two given areas, the distribution of their sales among the various types of outlets may differ markedly. Thus a greater concentration of one kind of store or the dominance of certain firms affects the showing of the more detailed groupings of retail establishments.

Another factor affecting the level of per capita sales for a given area is the tempo of economic activity. If food store sales are excluded, all other retail sales appear quite sensitive to changes in economic conditions. The census year 1954 was one of mild recession over-all, but the impact was unequal on businesses and localities. It is not surprising, therefore, that with a few notable exceptions per capita sales were greater in cities least affected by industries which felt the brunt of that particular economic adjustment. An accompanying chart compares the unemployment incidence with retail trade in a number of areas.

This suggests that retail sales information for any census year requires interpretation in the light of the prevailing economic climate. Moreover, it points up distinguishing characteristics of retail trade movements: their responsiveness to economic conditions and their inherent diversity both by kind of business and geographically. More importantly, it underscores the need for time series which will place detailed Census descriptions in their proper perspective.

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